

PHASING OUT THE VIRGINIA ESTATE TAX

Virginia Department of Taxation
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CURRENT ESTATE TAX LAW

- ◆ Virginia imposes a “pick-up” estate tax that is equal to the maximum amount of the federal credit for state death taxes as it existed on January 1, 1978.
- ◆ Prior to recently enacted federal legislation, the maximum federal credit amounts have not changed since 1978.
- ◆ Under the Economic Growth and Tax Relief Act of 2001 enacted by Congress, the state death tax credit is reduced incrementally beginning in 2002, and is fully repealed in 2005. For 2005 and years thereafter, a deduction from the taxable estate is allowed for any state death taxes actually paid.

Year of Death	% Reduction of Federal Credit for State Death Taxes
2002	25%
2003	50%
2004	75%
2005	Credit Repealed

- ◆ The effect of the federal legislation on the Virginia estate tax is as follows:
 - The estates of Virginia decedents dying between January 1, 2002 and December 31, 2004 would pay the Virginia estate tax at the 1978 rates, but would receive a partial credit for this tax in the federal estate tax return; and
 - The estates of Virginia decedents dying on and after January 1, 2005, would pay the Virginia estate tax at the 1978 rates until the entire federal estate tax is repealed in 2010.

PHASING OUT THE VIRGINIA ESTATE TAX

- ◆ If Virginia’s conformity to the federal state death tax credit is conformed with the recent changes in federal law effective for 2003, then the Virginia Estate Tax would be phased out in the same manner as the federal credit.
- ◆ The revenue impact of phasing out the Virginia Estate Tax in the same manner as the federal credit would be as follows:

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
-\$23.8 million	-\$55.8 million	-\$87.7 million	-\$119.5 million	-\$127.5 million